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Report Highlights:

Production of sugar cane is forecast to increase slightly in 2005/06, despite a downturn in harvested area. Sugar production is also expected to rise, roughly in line with the higher cane production level. The forecasted increase in production is expected to lead to a small rise in exports. Despite this relatively favorable production and export forecast, industry sources highlight low sugar prices and maintain a relatively pessimistic outlook for the industry over the longer term. The Government is committing significant funds to help sugar producers through immediate difficulties and to also address industry reform.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Canberra [AS1]
[AS]

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SECTION ONE: SITUATION AND OUTLOOK

Production of sugar cane is forecast to increase in 2005/06, despite an expected reduction in harvested area. A return to more normal weather conditions following a prolonged drought should see yields return to levels more reflective of the longer-term average, and will likely more than compensate for the reduction in harvested area. Presently, a trend toward drier than normal conditions in some major cane growing areas of Queensland has some concerned about the upcoming harvest.

Production of sugar is also expected to increase in 2005/06, roughly in line with higher cane production levels, and with higher expected Commercial Cane Sugar (CCS) content. The rise in production is expected to lead to increased sugar exports in 2005/06.

Industry sources maintain a relatively pessimistic outlook for the Australian sugar industry over the longer term. According to industry analysts, the forecast decline in area marks the end of the long-term trend of increasing area over the past decade. A succession of poor production conditions, including disease outbreaks (2000/01), drought (2003/04 and 2004/05) and depressed prices (1999/2000 to present), has placed considerable financial pressure on producers. Post anticipates sugar cane producers will continue to exit the industry or move to other agricultural enterprises.

Domestic sugar prices are currently at relatively low levels, reflecting depressed world prices and a strong Australian dollar. Domestic raw sugar prices for 2005/06 are expected to average about \$A220 per metric ton, about 14 percent lower than in 2004/05. These price levels would likely increase financial pressures on the industry. Australian sugar prices have remained at relatively low levels for most of the last 6-7 years.

To address structural and financial difficulties in the Australian sugar industry, the Commonwealth Government has implemented a A\$444-million five-year Sugar Industry Reform Program (SIRP). Under the SIRP, funding is being provided to the industry to overcome short-term difficulties and longer-term measures to address industry reform.

The Australian dollar has strengthened significantly against the U.S. dollar in recent years. The Australian dollar, which is now trading at about US\$0.78, traded at an average of US\$0.74 in 2004, US\$0.65 in 2003, US\$0.56 in 2002, and US\$0.51 in 2001.

Note: A series of graphs are presented in this report to provide a longer-term perspective to trends in the Australian sugar sector. The data for constructing these graphs is from the Australian Bureau of Agriculture and Resource Economics (ABARE). As such, the figures may not relate directly with Post's estimates and forecasts contained elsewhere in the report.

SECTION TWO: STATISTICAL TABLES

PSD Table Sugar, Centrifugal							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2003		07/2004		07/2005	MM/YYYY
Beginning Stocks	662	662	511	539	657	429	(1000 MT)
Beet Sugar Production	0	0	0	0	0	0	(1000 MT)
Cane Sugar Production	4994	5090	5500	5255	0	5324	(1000 MT)
TOTAL Sugar Production	4994	5090	5500	5255	0	5324	(1000 MT)
Raw Imports	3	3	3	3	0	3	(1000 MT)
Refined Imp.(Raw Val)	2	7	2	7	0	7	(1000 MT)
TOTAL Imports	5	10	5	10	0	10	(1000 MT)
TOTAL SUPPLY	5661	5761	6016	5803	657	5762	(1000 MT)
Raw Exports	3810	3932	4019	4084	0	4121	(1000 MT)
Refined Exp.(Raw Val)	140	140	140	140	0	140	(1000 MT)
TOTAL EXPORTS	3950	4072	4159	4224	0	4261	(1000 MT)
Human Dom. Consumption	1200	1150	1200	1150	0	1150	(1000 MT)
Other Disappearance	0	0	0	0	0	0	(1000 MT)
Total Disappearance	1200	1150	1200	1150	0	1150	(1000 MT)
Ending Stocks	511	540	657	431	0	354	(1000 MT)
TOTAL DISTRIBUTION	5661	5761	6016	5803	0	5762	(1000 MT)

PSD Table Sugar Cane for Centrifugal							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2003		07/2004		07/2005	MM/YYYY
Area Planted	0	0	0	0	0	0	(1000 HA)
Area Harvested	415	415	0	420	0	410	(1000 HA)
Production	36280	37454	0	38246	0	38523	(1000 MT)
TOTAL SUPPLY	36280	37454	0	38246	0	38523	(1000 MT)
Utilization for Sugar	36220	37394	0	38186	0	38463	(1000 MT)
Utilizatn for Alcohol	60	60	0	60	0	60	(1000 MT)
TOTAL UTILIZATION	36280	37454	0	38246	0	38523	(1000 MT)

Import Trade Matrix Sugar, Centrifugal			
Time Period	Yr End Jun	Units:	MT
Imports for:	2003		2004
U.S.	70	U.S.	28
Others		Others	
New Zealand	2890	China	1565
Malaysia	1932	Malaysia	435
China	1613	New Zealand	360
Mauritius	661	Singapore	313
Singapore	326	Mauritius	195
Hong Kong	252	South Africa	108
Australia	128	United Kingdom	39
United Kingdom	17	India	23
France	17	Belgium	21
India	10	Columbia	20
Total for Others	7846		3079
Others not Listed	28		67
Grand Total	7944		3174

Source: World Trade Atlas

Export Trade Matrix Sugar, Centrifugal			
Time Period	Yr End Jun	Units:	MT
Exports for:	2003		2004
U.S.	88025	U.S.	108250
Others		Others	
Malaysia	798833	Malaysia	1015633
Rep of Korea	795400	Rep of Korea	980331
Japan	729000	Japan	518102
China	367700	Canada	381248
Canada	329271	New Zealand	220400
New Zealand	218600	Saudi Arabia	219500
Saudi Arabia	212000	Indonesia	152305
Indonesia	163700	Taiwan	133600
Taiwan	157500	China	124800
Iran	84000	India	77750
Total for Others	3856004		3823669
Others not Listed	30762		19
Grand Total	3974791		3931938

Source: Australian Bureau of Statistics

SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

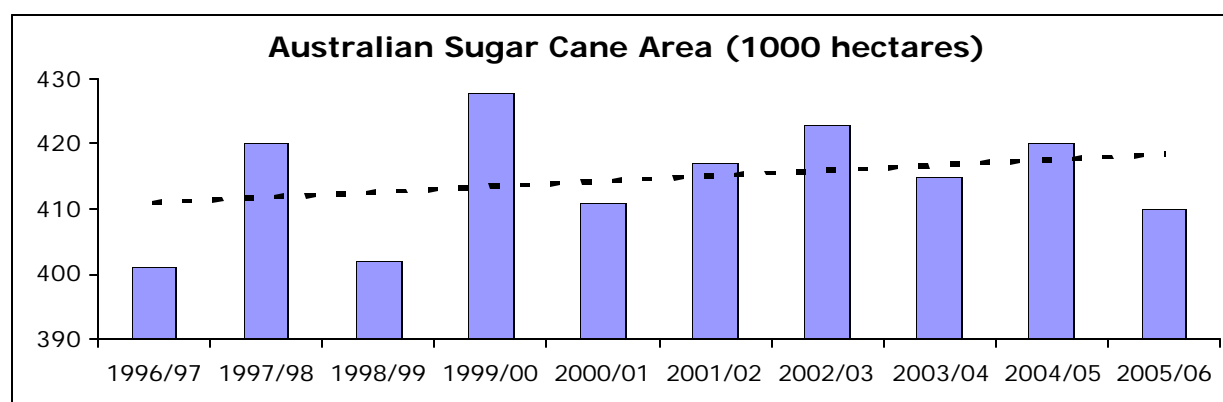
Sugar Cane for Centrifugal

Sugar Cane Area (Cut for Crushing)

Sugar cane area is forecast to fall to 410,000 hectares in 2005/06, 10,000 hectares below the estimate for the previous year. Despite a recent upswing, sugar prices remain at relatively low levels and continue to place downward pressure on the area devoted to sugar cane. Some producers are also leaving the industry or turning to alternative crops.

Industry sources indicate that the 428,000 hectares of sugar cane area reached in 1999/2000 is likely to remain a record for the foreseeable future, and that the industry is likely facing the beginning of a longer-term decline in area. Another sugar mill (in central Queensland) closed at the beginning of 2005, which is indicative of falling area in a key sugar cane producing area.

Estimated sugar cane harvested area in 2004/05 remains unchanged at 420,000 hectares, but 5,000 hectares higher than the previous year. A brief improvement in pool prices and the addition of sugar cane crops re-established following earlier rust outbreaks and drought were likely the major reasons behind the rise.

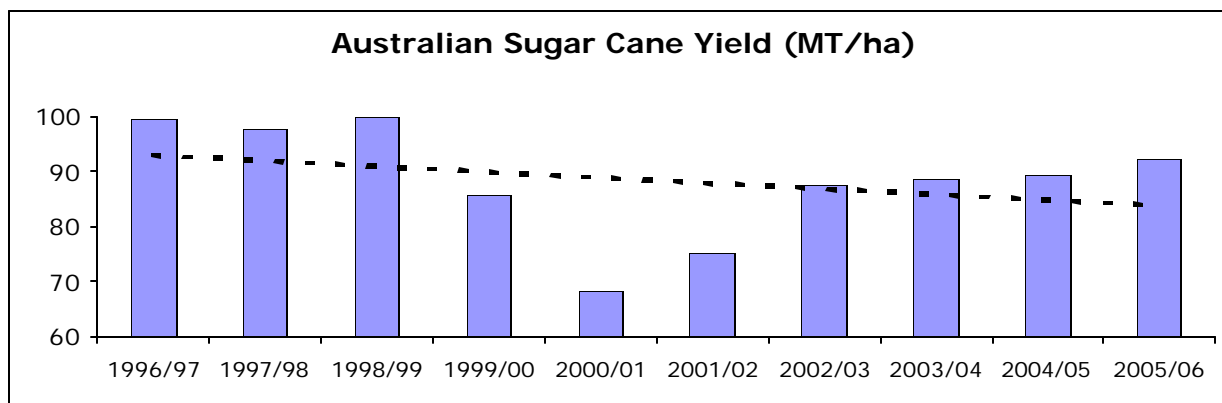


Source: ABARE data (July-June year).

Cane Yield

Average sugar cane yield (cut for crushing) in 2005/06 is forecast at 94 MT/hectare, up three percent from the previous year. The anticipated return to more normal production conditions is expected to mark the reversal in the trend of declining yields caused by earlier rust outbreaks and drought that characterized the late 1990's and early 2000's.

Estimated average cane yield in 2004/05 is 91.1 MT/hectare, down from Post's last projection. Below average rainfall and generally dry conditions resulted in below average yields. Post's previous yield forecasts for 2004/05 were predicated on a return to more normal weather conditions, which did not occur.



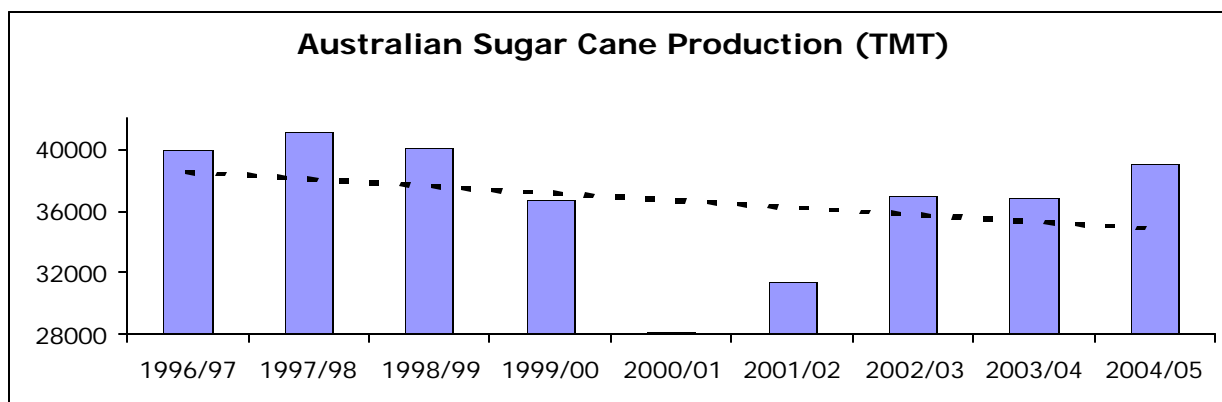
Source: ABARE data (July-June year).

Sugar Cane Production

Sugarcane production in marketing year (MY) 2005/06 (July-June) is forecast at 38,523 thousand metric tons (TMT), up slightly from the revised figure for the previous year. The 2005/06 cane harvest will begin in June/July and is normally mostly completed by December.

Estimated cane production in 2004/05 has been revised downward to 38,246 TMT. Higher yields previously anticipated failed to eventuate due to drought conditions that persisted in many key-growing areas.

Over the longer term, sugar cane production is up sharply from the depressed levels earlier this decade, but still below production in the late 1990's.



Source: ABARE data (July-June year).

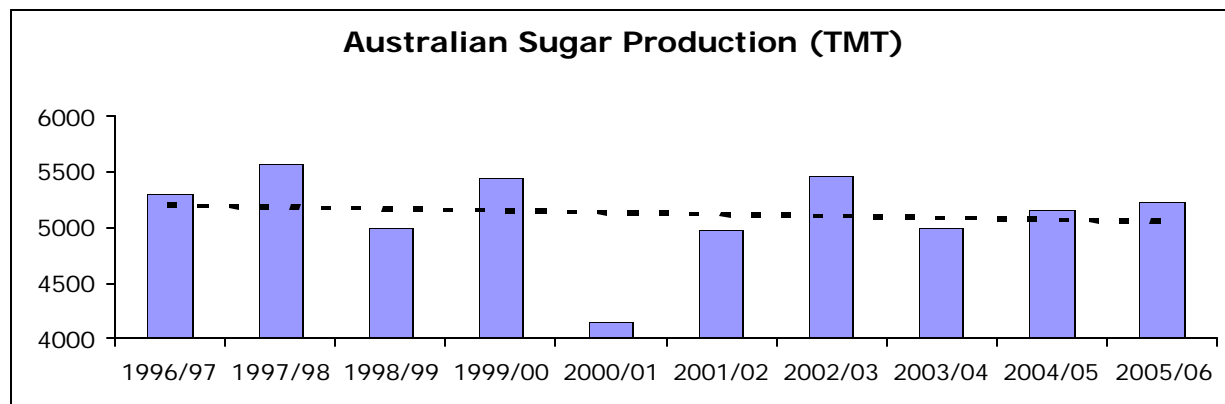
Centrifugal Sugar

Production

Centrifugal sugar production in MY 2005/06 is forecast at 5,324 TMT, up slightly from the revised estimate for the previous year. 'Commercial Cane Sugar' content is forecast at 13.82 percent, which is generally in line with the longer-term trend. Post assumes a return to more normal seasonal conditions in 2005/06, following the drier than average conditions experienced in 2003/04 and 2004/05.

Estimated centrifugal sugar production in 2004/05 has been revised downward to 5,255 TMT, and now is at a level just marginally above 2003/04.

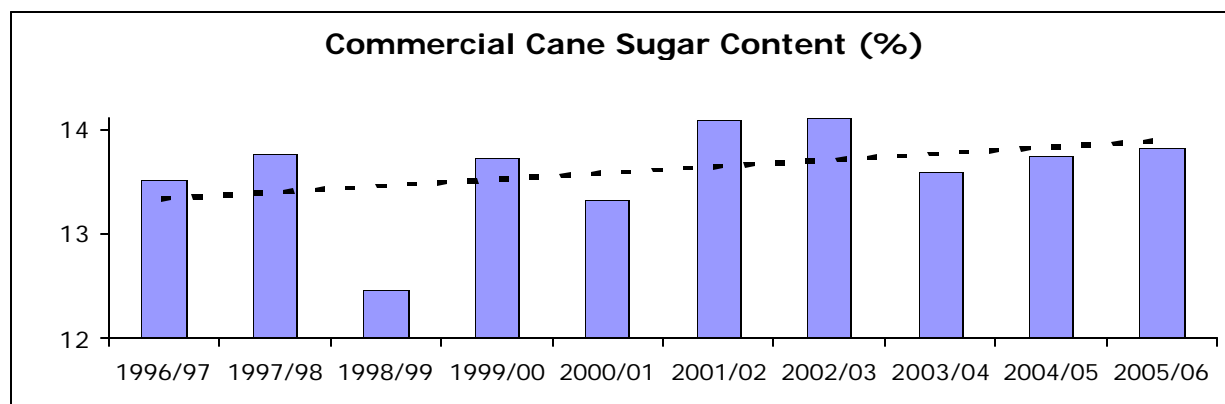
Longer-term projections recently released by ABARE show Australian sugar production rising only slightly out to 2009/10. Post expects this increase will occur due to rising sugar cane yields, more than offsetting declining cane area over the period.



Source: ABARE data (July-June year).

Commercial Cane Sugar Content

Commercial Cane Sugar content (CCS) is forecast at 13.8 percent in 2005/06, roughly in line with the historical trend. This CCS figure represents a slight increase from the 13.7 percent estimated for the previous year. Below average rainfall experienced in recent years has tended to boost CCS content in Australian sugar cane.



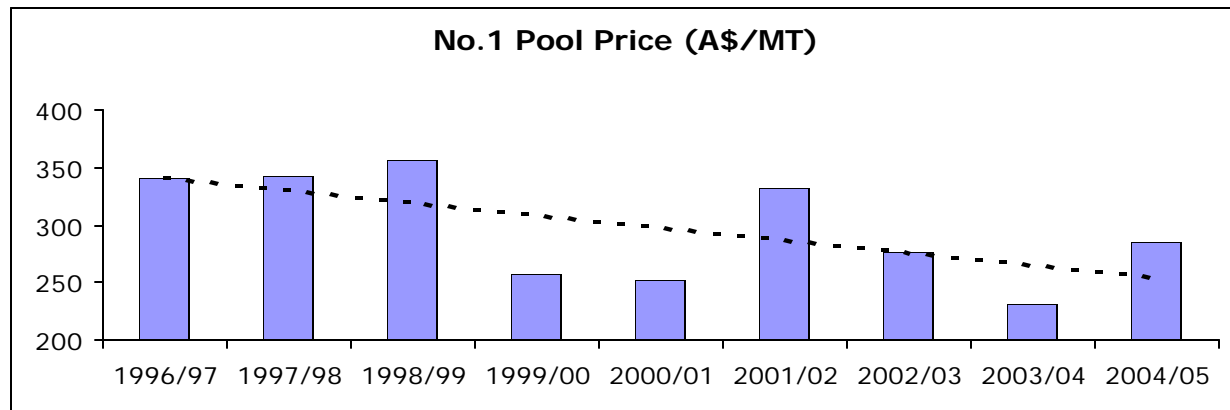
Source: ABARE data (July-June year).

Prices

Domestic sugar prices remain at relatively low levels, reflecting depressed world prices and a strong Australian dollar. According to ABARE's forecasts, sugar prices in 2005/06 are expected to average 8.0 USc/lb, down significantly from the average 9.7 USc/lb estimated for 2004/05. According to industry sources, this ABARE forecast is roughly equivalent to a 2005/06 pool price of \$A220/MT (raw), down from \$A255/MT during the previous year. This expected 2005/06 price level would likely increase financial pressures on the industry.

The average value of the Australian dollar has risen sharply over the past five years, from a low of less than US\$0.50 in 2001 to a high of nearly US\$0.80 in early 2005. Since international trade in sugar is mostly denominated in U.S. dollars, the exchange rate alone has had a severe depressing impact on Australian dollar returns for sugar exports.

ABARE is projecting the decline in sugar prices to continue in real terms out to 2009/10, when it is projected to have fallen to 5.8 USc/lb in real terms.



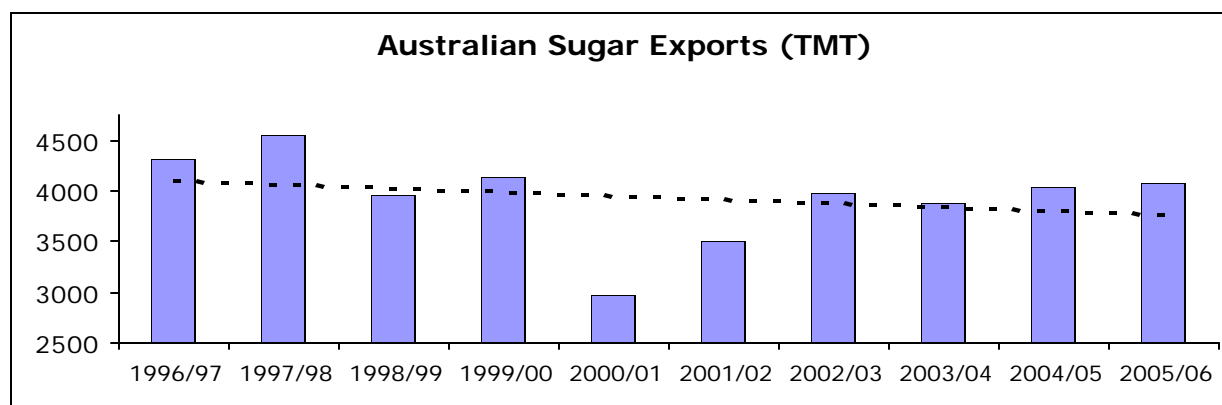
Source: ABARE data (July-June year).

Trade

Sugar exports in MY 2005/06 are forecast at 4,261 TMT, up marginally from the previous year. Indications are that Australia will increasingly focus on Asian markets for sugar exports. This in part reflects Australia's competitive advantage on freight in the region (in the face of sharply higher international rates), but also reflects strong regional demand growth. Specifically, a rise in refinery capacity in Indonesia is expected to increase imports of raw sugar, while rising sugar consumption in China is expected to see imports become more regular. Shipments to eastern Canada will likely continue declining due to the high freight rates and competition from Latin American suppliers.

Sugar exports in 2004/05 are estimated at 4,224 TMT, up from the previous year and in line with ABARE's forecast increase in exports. For 2003/04, exports are estimated at 4,072 TMT, based on official Australian Bureau of Statistics (ABS) data.

According to official ABS statistics, Malaysia and Korea received over half of Australia's sugar exports in 2003/04. Japan and Canada were the next largest markets receiving around 13 percent and 10 percent of exports, respectively.



Source: ABARE data (July-June year).

Stocks

Official information on Australian sugar stocks is unavailable. Post's stock figures are derived from production, consumption and net trade. The Australian sugar industry receives no incentives to store sugar and industry sources maintain that there is essentially no carry-over of stocks from one harvest to the next.

Marketing

Queensland Sugar

Queensland Sugar Limited (QSL) is the exclusive ('single-desk') marketing organization for all raw sugar produced in the State of Queensland. QSL is a Corporations Law corporation limited by guarantee, but retains the vested ownership of raw sugar and marketing functions of the former Queensland Sugar Corporation. QSL is owned by growers and millers in Queensland. The Sugar Authority is a statutory body, established by Queensland's Sugar Industry Act 1999, to monitor the performance of QSL.

Queensland Sugar Limited 'pools' the revenue earned from all sales of raw sugar produced in the State. Queensland's sugar millers and cane growers are paid from this pool for the raw sugar they produce. During the crushing season, Queensland sugar makes payments from the pool to mills for the quantity of raw sugar delivered to the bulk sugar terminals. These weekly payments are known as 'Advances'.

Before the start of each sugar cane crushing season, an initial Advance Rate is set. The Advance Rate is a percentage of the estimated price per ton of sugar expected for the season. The Advance payments are adjusted throughout the season as changes occur in the world market and fluctuations in the A\$/US\$ exchange rate. The final price per ton received by Queensland producers in any given season is affected by sugar prices and the Australian/U.S. dollar exchange rates.

At the end of each financial year, a final Pool Price is calculated taking into account the Advance Payments made during the season.

Policy

Free Trade Agreements

Australia implemented Free Trade Agreements (FTA's) with Singapore in 2003 and with Thailand and the United States in 2005. Additional FTAs have been proposed or are being negotiated with Malaysia, the Association of Southeast Asian Nations, China and the United Arab Emirates.

The Australia-U.S. FTA was implemented on January 1, 2005. Under the agreement, Australian sugar access to the United States remains unchanged, with raw cane sugar entering the United States under a tariff-rate quota (TRQ). Under this TRQ, Australia is allocated 87,402 MT of raw cane sugar in U.S. fiscal year 2005.

The Australian sugar industry reacted angrily to the omission of sugar in the Australian-U.S. FTA. To compensate the industry for the exclusion, the Commonwealth Government provided additional funds to the Sugar Industry Reform Program, which was implemented in 2002.

Sugar Industry Reform

To address structural and financial difficulties in the Australian sugar industry, the Commonwealth announced a Sugar Industry Reform Program (SIRP) in September 2002. (The SIRP was subsequently supplemented by a revised program announced in June 2004, when it was clear that liberalizing trade in sugar would be excluded from the Australia-U.S. Free Trade Agreement.) Under the SIRP, a total of A\$444 million of assistance is being provided to the sugar industry over a multiple-year period. The Commonwealth is providing most of the funding, which is derived from a levy on domestic sugar sales. Under an MOU with the Commonwealth Government, the state of Queensland is providing A\$30 million and agreed to repeal elements of the Queensland Sugar Industry Act 1999.

Under the SIRP, assistance is being provided through a combination of measures to help the industry through immediate short-term difficulties and longer-term measures to help the industry undertake necessary reform. SIRP funding is being used for:

- Sustainability Grants (A\$146 million),
- Re-Establishment Grants (A\$96 million),
- Grower Restructuring Grants (A\$40 million),
- Income Support (A\$21 million),
- Business Planning for growers, harvesters and mills (A\$15.5 million),
- Retaining (A\$7 million),
- Intergenerational Transfer (A\$23 million), and
- Regional and Community Development Projects (A\$75 million).

The one-off Sustainability Grants were paid to participating growers and millers in June 2004 and January 2005. The Re-Establishment Grants, of up to A\$100,000 per farmer, are being provided to those producers who have decided to leave the industry. The Grower Restructuring Grants are for growers who choose to remain in the industry, but have agreed to undertake significant operational restructuring.

A five-year sugar levy was implemented on January 1, 2003 to provide funding for the SIRP. The levy, A\$0.03 per kilogram (A\$30/MT), is assessed on domestically produced or imported sugar packaged for retail sale, and sugar that is used as an ingredient in goods that are

produced in Australia for human consumption. Exports of refined sugar are exempt from the levy and there is a rebate for exports of sugar-containing products. Imports of sugar-containing products are also exempt from the levy.

On January 1 2005, rules concerning sugar production and marketing in Queensland (Sugar Industry Act 1999) were amended under new legislation contained in the Sugar Industry Reform Act 2004, consistent with the 2002 MOU with the Commonwealth. These changes effectively removed restrictions on: delivery of cane to mills, bargaining between mills and growers, and dispute resolution. The new regulations allow specific exemptions from vesting rights for specific purposes, including the production of sugar for alternate uses such as ethanol and sugar packaged in bags. Furthermore, a working group has been established to develop voluntary marketing arrangements for marketing sugar in Queensland. This group is expected to make recommendations to the Queensland Government by mid 2005.

WTO Sugar Dispute with the EU

Australia, along with Brazil and Thailand, has also been a participant in a WTO case against the EU sugar regime. In 2004, a WTO panel ruled in favor of the co-complainants, finding that the EU was exporting more sugar with subsidy than permitted under WTO rules. The EU subsequently appealed the panel's decision in early 2005.